

IDS Survey Results for 2000: HIPAA Activities

The HIPAA clock is ticking. From the results of Gartner's 2000 survey of integrated delivery systems, we report on early HIPAA-compliance activities and the associated cost expectations.

Core Topic

Industry Applications: Healthcare IT Drivers and Strategies

Key Issue

How will changes in regulatory, societal or technological arenas alter the importance or position of healthcare IT and the IS department?

Strategic Planning Assumption

For at least 50 percent of HCOs, the time and money spent by 2003 to realize HIPAA-compliance will equal or exceed that spent on year 2000 compliance efforts (0.7 probability).

Note 1

Survey Methodology

The data reported is based on a scientifically drawn sample of 107 IDSs throughout the United States that participated in Gartner's 2000 IDS Survey, conducted in spring and summer 2000. In a continuing effort to ensure accuracy in describing trends among IDSs, we chose the sample to reflect all IDSs based on revenue and regional groupings. This survey is a continuation of the annual Gartner IDS Survey, conducted since 1988.

Note 2

IDS Criteria

Gartner has identified approximately 400 IDSs in the United States. For the purpose of our research, fully qualified IDSs are characterized as organizations that:

- Deliver a vertical array of healthcare services — including physician, inpatient, laboratory, home care and radiological services — through owned or contracted resources.
- Have a fundamental mission of providing care while reducing costs and improving clinical quality and patient/member satisfaction.
- Assume increasing responsibility for coordinating and providing a broad spectrum of care for a defined population; most IDSs share or manage some risk.
- Have a major leadership, presence and revenue base in their service areas.

Gartner's 2000 spending and staffing survey of integrated delivery systems (IDSs; see Note 1 and Note 2) revealed that IT operations and capital spending have declined. In an environment of unrelenting cost reduction pressures driven by the Balanced Budget Act's reimbursement cuts, now comes HIPAA, a compliance initiative expected to be of comparable scope and cost to year 2000 compliance efforts for many HCOs. We asked IDS executives several questions about their early HIPAA-compliance activities.

Have IDSs started work on HIPAA-compliance yet?

Surprisingly, despite the fact that the first final regulation on EDI was not published until 17 August 2000 (two months after completion of this survey), 71 percent of respondents had at least begun preliminary compliance activities. For the most part, this likely entailed education and awareness campaigns (HIPAA COMPARE Level I activities; see Figure 1, Note 3 and *Research Note* DF-11-5714). However, when asked if they had begun assessments of activities needed to achieve compliance with each of the three major HIPAA regulation categories (See Note 4), the affirmative responses were also higher than expected:

- EDI — 41 percent
- Security — 65 percent
- Privacy — 51 percent

The key word in these survey questions was "begun." Gartner is surveying a broad sample of the healthcare industry, specifically on HIPAA-compliance activities, asking detailed questions about progress on each milestone defined in the Gartner COMPARE methodology. First results of that survey, which will be conducted quarterly through 2003, will be reported in late 2000.

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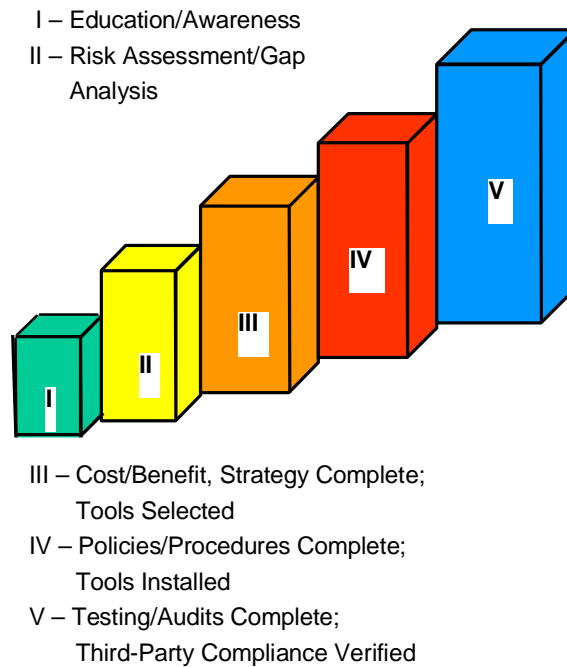
Note 3**COMPARE for HIPAA**

Gartner first copyrighted the COMPARE (COMpliance Progress And REadiness) scale in 1997, as a tool for tracking an enterprise's progress with year 2000-compliance. This tool, modified for HIPAA Administrative Simplification, will provide the framework for our tracking and reporting of the healthcare industry's overall progress. We will survey HCOs in all segments on a quarterly basis during the next three years, to deliver a benchmark for an HCO to compare its progress toward HIPAA-compliance.

Note 4**Assessment Activities**

These include interpretation of rules, inventories of systems and policies, gap analyses of risks and vulnerabilities and many other tasks (see *Research Note DF-11-7237*).

Figure 1
HIPAA COMPARE Scale



Source: Gartner Research

Will IDSs rely on consultants/systems integrators (C/SIs) for assessment help? Only 34 percent of respondents expect to turn to third-party assistance for completing compliance assessments. Most of those IDSs have already at least received proposals from C/SIs, and reported an average expected cost of \$137,000 for outside assessment help. The relatively low percentage of IDSs seeking C/SI assistance at this point is not surprising. Gartner has been tracking those vendors offering assessment services since late 1999, and very few report significant project activity for provider organizations; most of their early HIPAA clients have been the largest health plans.

Do IDSs have any estimates on expected costs to achieve compliance? Approximately 20 percent of respondents have forecasted their expected HIPAA-compliance implementation costs, and those IDSs reported an average figure of \$4.6 million. With final wording of the security and privacy regulations still pending, these estimates must be taken with a grain of salt. As a point of comparison, respondents to Gartner's 1998 IDS survey expected their total year 2000 compliance costs to average slightly less than \$5 million. When all costs were summed in early 2000, actual spending averaged between \$10 million and \$15 million per IDS.

How do these estimates compare with other industry data references? Again, with no one certain of the final degree of complexity of the security and privacy rules, any anecdotal



reportings of spending estimates are dubious. However, those C/SIs that have completed compliance-implementation workplans for IDSs have calculated expected costs in the range of \$3 million to \$13 million per client, through 2003. This only represents approximately one dozen IDS data points, since the early C/SI assessment activity has been mostly with payer organizations. IDS CIOs should use preliminary cost estimates only to set executive and board expectations regarding the potential scope of HIPAA. Comprehensive assessments must be completed upon final rule publication, to understand an individual IDS' expected spending. No two IDSs have the same composition or requirements.

Acronym Key

EDI	Electronic data interchange
HCO	Healthcare organization
HIPAA	Health Insurance Portability and Accountability Act

For IDSs still early in their HIPAA-awareness activities, the U.S. Department of Health and Human Services manages the definitive Web site on proposed and final Administrative Simplification regulations — aspe.os.dhhs.gov/admsimp.

